

CITY OF COLFAX, IOWA

Independent Auditors' Reports
Basic Financial Statements and
Supplemental Information
and Findings

June 30, 2010

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City of Colfax, Iowa
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Mast	Mayor	January, 2012
Curtis Small	Council Member	January, 2012
Brad Magg	Council Member	January, 2014
Bryan Poulter	Council Member	January, 2012
Steve Theis	Council Member	January, 2012
Karla Jones	Council Member	January, 2014
Kathy Mathews	City Clerk	Indefinite
Larry Opfer	Treasurer	Indefinite
Ken Walker	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES R. ZIRCHER, CPA
NEAL R. SMITH, CPA
DEBRA J. NABITY, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Colfax

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also included our report on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Colfax's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statement for the six years ended June 30, 2009 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

December 17, 2010

Pollard and Company P.C.

CITY OF COLFAX MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Colfax provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements and the accompanying notes, which follow.

FINANCIAL HIGHLIGHTS

- The City's receipts totaled \$2,171,799 for the year ended June 30, 2010, a decrease from 2009 which was \$2,332,048.
- Disbursements for the year totaled \$2,076,232 which was a decrease from 2009 which was \$2,310,294.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the city as a whole and presents an overall view of the City's finances.

Notes to financial statements provide additional information essential to full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets are divided into two finds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, and garbage/landfill. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Government funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The major governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax, Local Option Sales Tax, Hotel/Motel Tax Fund, and Employee Benefits Fund; 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Transfers In and Out are used to accumulate resources and allocate those resources internally among the City's various funds.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds are used to report business type activities. The City maintains three funds to provide separate information for the water, sewer, and garbage/landfill funds considering these to be major funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

INDIVIDUAL MAJOR GOVERNMENT FUND ANALYSIS

The following are the major reasons for the changes in fund balances of certain major funds from the prior year.

- The General Fund has a deficit balance of \$<379,556>. This deficit balance is an increase from last year's deficit. The City will continue to cut spending when possible.
- Employee Benefit Fund cash balance is \$94,718 Benefit payments were under property tax receipts in this year.
- The Debt Service Fund cash balance has a deficit of \$<21,739> after disbursements for the year and an increase in property tax receipts. The City will need to increase the debt service levy in an upcoming budget.
- The Road Use tax fund has a deficit balance of \$<31,746> which was created because of project expenditures which were made ahead of receipts in prior years. The receipt of future revenues will be used to offset the deficit.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$32,900.
- The Sewer Fund cash balance decreased \$6,814.
- The Garbage/Landfill cash balance increased \$20,546.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$1,778,729 in bonds and other long-term debt, compared to \$2,062,637 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	<u>2009</u>	<u>2010</u>
General obligation bonds	555,548	385,978
Revenue notes	<u>1,507,089</u>	<u>1,392,965</u>
Total	2,062,637	1,778,729

The City's outstanding general obligation debt of \$421,978 is below its constitutional debt limit of \$3.5 million.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance from its activities decreased from a year ago, by \$72,168, during the year ended June 30, 2010.

The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2009	2010
Receipts:		
Program receipts:		
Charges for service	1,049,994	961,869
Operating grants, contributions and restricted interest	278,444	233,090
General receipts:		
Property tax	684,230	659,847
Other general receipts	92,481	93,919
Hotel/motel and local option taxes	226,899	223,074
Total receipts	2,332,048	2,171,799
Disbursements:		
Water	302,196	288,409
Sewer	371,854	370,551
Landfill	132,402	121,924
Total business type disbursements	806,452	780,884
Public safety disbursements	486,489	612,848
Public works disbursements	335,071	213,773
Culture and recreation	256,398	229,619
Community and economic development	43,916	31,126
General government	180,088	175,296
Debt service	201,880	194,521
Health and social services	0	5,900
Total governmental activities	1,503,842	1,463,083
Total	2,310,294	2,243,967
Cash basis net assets beginning of year	1,612,518	1,634,272
Cash basis net assets end of year	1,634,272	1,562,104

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Colfax's elected and appointed officials considered many factors when setting the fiscal year 2011 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2010 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slow residential housing market and modest increases in energy prices in 2006-2010.

These indicators were taken into account when adopting the budget for fiscal year 2011. Amounts available for appropriation in the operating budget are \$2.5 million, a slight increase over the final 2011 budget. Budgeted disbursements are expected to have a slight increase. The City has the installation of water meters and some water/sewer line replacements coming into the 2011 budget. The City has applied for assistance with a SRF loan to assist with the completion of some water/sewer line replacements along with the installation of water meter expenses. There will also be a slight increase in rates for water and sewer to help with the offset of expenses.

If these estimates are realized, the City's budgeted cash balance is expected to remain consistent with the close of 2010.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kathy L. Mathews, City Clerk, 15 E Howard, Colfax, Iowa.

City of Colfax, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2010

Functions/Programs	Disbursements	Program Receipts	
		Charges for Services	Operating Grants, Contributions, and Restricted Interest
Governmental Activities			Capital Grants, Contributions and Restricted Interest
Public safety	\$ 612,848	\$ 106,282	\$ 4,154
Public works	213,773		210,174
Health and Social Services	5,900		
Culture and recreation	229,619	24,364	22,916
Community and economic development	31,126		4,800
General government	175,296	12,898	
Debt service	194,521		
Total governmental activities	1,463,083	143,544	233,090 8,954
Business Type Activities			
Water	288,409	312,505	
Sewer	370,551	363,448	
Sanitation	121,924	142,372	
Total business type activities	780,884	818,325	
Total	\$ 2,243,967	\$ 961,869	\$ 233,090 8,954
General Receipts			
Property tax levied for			
General purposes			
Tax increment financing			
Debt service			
Local option sales tax			
Hotel/motel tax			
Unrestricted interest on investments			
Repayment of TIF debt			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash basis net assets			
Restricted (Deficit)			
Streets			
Debt service			
Other purposes			
Unrestricted (deficit)			
Total cash basis net assets			

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (502,412)		\$ (502,412)
(3,599)		(3,599)
(5,900)		(5,900)
(182,339)		(182,339)
(26,326)		(26,326)
(162,398)		(162,398)
(194,521)		(194,521)
(1,077,495)		(1,077,495)
	24,096	24,096
	(7,103)	(7,103)
	20,448	20,448
	37,441	37,441
\$ (1,077,495)	\$ 37,441	\$ (1,040,054)
462,081		462,081
26,699		26,699
171,067		171,067
157,583		157,583
65,491		65,491
12,514	5,638	18,152
(3,553)	3,553	-
86,516		86,516
(19,703)		(19,703)
958,695	9,191	967,886
(118,800)	46,632	(72,168)
5,287	1,628,985	1,634,272
\$ (113,513)	\$ 1,675,617	\$ 1,562,104
\$ (31,746)	\$	\$ (31,746)
(21,739)	752,805	731,066
319,528		319,528
(379,556)	922,812	543,256
\$ (113,513)	\$ 1,675,617	\$ 1,562,104

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2010

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Hotel/Motel Tax
Receipts				
Property Taxes	\$ 310,969	\$	\$	\$
Tax Increment Financing Collections				
Other City Tax	15,324		157,583	65,491
Licenses and Permits	12,898			
Use of Money and Property	7,999		651	666
Intergovernmental	22,916	210,174		
Charges for Services	130,646			
Special assessments	10,731			
Miscellaneous	60,178	4,287		
Total Receipts	571,661	214,461	158,234	66,157
Disbursements				
Operating				
Public Safety	540,600			
Public Works		197,963		
Health and Social Services	5,900			
Culture and Recreation	140,875		69,635	
Community and Economic Development				26,326
General Government	145,948			
Debt Service				
Total Disbursements	833,323	197,963	69,635	26,326
Excess (deficiency) of receipts over (under) disbursements	(261,662)	16,498	88,599	39,831
Other financing sources (uses)				
Repayment of TIF Debt				
Operating transfers in	174,783	5,923		
Operating transfers out			(164,465)	(32,746)
Total other financing sources (uses)	174,783	5,923	(164,465)	(32,746)
Net change in cash balances	(86,879)	22,421	(75,866)	7,085
Cash balance (deficit) - beginning of year	(292,677)	(54,167)	161,041	66,340
Cash balance (deficit) - end of year	\$ (379,556)	\$ (31,746)	\$ 85,175	\$ 73,425
Cash basis fund balances (deficit)				
Unreserved				
Debt service	\$	\$	\$	\$
General fund	(379,556)			
Special revenue funds		(31,746)	85,175	73,425
Permanent fund				
Total cash basis fund balances (deficit)	\$ (379,556)	\$ (31,746)	\$ 85,175	\$ 73,425

The accompanying notes to financial statements are an integral part of this statement.

<u>Special Revenue</u>		Other Nonmajor Governmental Funds		Total
Employee Benefits	Debt Service			
\$ 151,112	\$ 171,067	\$	\$	633,148
		26,699		26,699
				238,398
				12,898
		3,198		12,514
		4,800		237,890
				130,646
				10,731
		150		64,615
151,112	171,067	34,847		1,367,539
72,248				612,848
15,810				213,773
				5,900
19,109				229,619
		4,800		31,126
29,348				175,296
	194,521			194,521
136,515	194,521	4,800		1,463,083
14,597	(23,454)	30,047		(95,544)
	(3,553)			(3,553)
	26,699			207,405
		(29,897)		(227,108)
	23,146	(29,897)		(23,256)
14,597	(308)	150		(118,800)
80,121	(21,431)	66,060		5,287
\$ 94,718	\$ (21,739)	\$ 66,210	\$	(113,513)
\$	\$ (21,739)	\$	\$	(21,739)
				(379,556)
94,718				221,572
		66,210		66,210
\$ 94,718	\$ (21,739)	\$ 66,210	\$	(113,513)

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2010

/

	Water	Sewer	Sanitation	Total
Operating receipts				
Charges for service	\$312,505	\$ 363,448	\$142,372	\$818,325
Operating disbursements				
Business type activities	288,409	202,816	121,924	613,149
Excess of operating receipts over operating disbursements	24,096	160,632	20,448	205,176
Non-operating receipts (disbursements)				
Interest on investments	5,251	289	98	5,638
Repayment of TIF debt	3,553			3,553
Debt service		(165,576)		(165,576)
Capital projects		(2,159)		(2,159)
Total non-operating receipts (disbursements)	8,804	(167,446)	98	(158,544)
Net change in cash balances	32,900	(6,814)	20,546	46,632
Cash balances - beginning of year	1,156,759	353,247	118,979	1,628,985
Cash balances - end of year	<u>\$ 1,189,659</u>	<u>\$ 346,433</u>	<u>\$ 139,525</u>	<u>\$ 1,675,617</u>
Cash basis fund balances				
Reserved for debt service	\$ 751,527	\$ 1,278	\$	\$ 752,805
Unreserved	438,132	345,155	139,525	922,812
Total cash basis fund balances	<u>\$ 1,189,659</u>	<u>\$ 346,433</u>	<u>\$ 139,525</u>	<u>\$ 1,675,617</u>

See notes to financial statements.

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Fiduciary Funds
As of and for the Year Ended June 30, 2010

	<u>Library Memorials</u>	<u>Tenant Memorial</u>	<u>IDED Project</u>
Receipts			
Intergovernmental	\$	\$	\$ 25,000
Investment earnings - interest		<u>2,927</u>	
Total receipts		<u>2,927</u>	<u>25,000</u>
Excess of receipts over disbursements		<u>2,927</u>	<u>25,000</u>
Disbursements			
Community and Economic Development			<u>45,000</u>
Excess (deficiency) of receipts over (under) disbursements		<u>2,927</u>	<u>(20,000)</u>
Other financing (uses)			
Operating transfers in			<u>19,703</u>
Net change in cash balances		2,927	(297)
Cash balance - beginning of year	43,833	61,883	1,440
Cash balance - end of year	<u>\$ 43,833</u>	<u>\$ 64,810</u>	<u>\$ 1,143</u>

CITY OF COLFAX, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1/ Summary of Significant Accounting Policies

The City of Colfax is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units that meet the criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards, commissions and 28E agreement: Jasper County Assessor's Conference Board, Selective Enforcement Response Team and Safety Coalition of Central Iowa Cities, City- County Planning Board, and Central Iowa Committee and a 28 E agreement for police, fire and emergency response with the City of Mitchellville.

The City also participates in the Jasper County Animal Rescue League and Humane Society with other municipalities in an organization under Chapter 28E of the Code of Iowa and paid fees to the organization \$3,821 during the fiscal year.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax is used to account for the City's sales tax receipts and the disbursements financed by such.

The Hotel/Motel Tax Fund is used to account for the City's hotel/motel tax receipts and the disbursements financed by such.

The Employee Benefits Fund is used to account for the tax levy and the disbursement for the benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for the operation of the City's solid waste disposal system.

C. Measurement Focus and Basis of Accounting

The City of Colfax maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

C. Measurement Focus and Basis of Accounting (continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the Culture and Recreation and Debt Service functions.

2/ Cash and Pooled Investments

The City's deposits at June 30, 2010 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the City.

3/ Notes Payable

The annual debt service requirement to maturity for general obligation notes, and the sewer revenue notes and bonds is as follows:

Year Ending June 30,	General Obligation Notes		Sewer Notes and Bonds		Total Annual Debt Retirement	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	126,992	17,227	112,498	43,965	239,490	61,192
2012	154,672	11,181	116,736	39,957	271,408	51,138
2013	62,554	4,351	121,052	35,781	183,606	40,132
2014	19,546	1,920	106,679	31,432	126,225	33,352
2015	11,000	1,023	105,000	28,080	116,000	29,103
2016	11,000	512	108,000	24,930	119,000	25,442
2017			112,000	21,690	112,000	21,690
2018			115,000	18,330	115,000	18,330
2019			118,000	14,880	118,000	14,880
2020			122,000	11,340	122,000	11,340
2021			126,000	7,680	126,000	7,680
2022			130,000	3,900	130,000	3,900
Totals	\$ 385,764	\$ 36,214	\$ 1,392,965	\$ 281,965	\$ 1,778,729	\$ 318,179

The City has pledged future sewer receipts, net of specified operating disbursements, to repay \$2,160,000 in sewer revenue note and bonds issued in May 2001 and March 2003, respectively. Proceeds were used to provide financing for the construction of improvements to the sewer plant. The obligations are payable solely from sewer customer net receipts and are payable through 2022. The total principal and interest remaining to be paid on the obligations is \$1,674,930. For the current year, principal and interest paid was \$162,033 and total customer net receipts were \$160,632.

The resolutions providing for the issuance of the note and bonds include the following provisions:

- The notes or bonds will only be redeemed from the future earnings of the sewer activity and the holders hold a lien on the future earnings of the sewer fund.
- Sufficient monthly transfers shall be made to a separate revenue bond sinking account for the purpose of making the next principal and interest payments.
- The City shall establish, impose, adjust and provide for the sewer rates to produce gross revenues at least sufficient to leave a balance, after specified operating disbursements, equal to 110% of the principal and interest due in any fiscal year.

During the year, the City did not increase sewer rates as required by the above resolution. Also, the City had not established sufficient amount for the sinking fund as required by the above resolution.

4/ Tax Increment Financing

In 1988, 1991, and 1999, the City established three urban renewal districts and made agreements with the county and school, in accordance with Chapter 403.19 of the Code of Iowa, to divide the increase in taxes, as a result of the incremental property tax valuation in those districts.

The taxes so collected are paid into a Special Revenue Fund and are to be expended for project costs or debt service associated with the projects affecting the districts. In prior years, the taxes received were not sufficient to pay the debt service. Consequently, the Water fund advanced \$77,269 toward debt service. In

accordance with the Iowa Code, these advances may now be repaid from the tax increment revenues since the 1999 general obligation refunding note has been retired. During the year, a final payment of \$3,553 was repaid on this intrafund debt.

In July 2001, the City and Jasper County entered into a 28E agreement to develop the Colfax I-80 Interchange Urban Renewal Project area. The City extended its water and sanitary sewer service to the area. By June 30, 2010, the County had loaned the City \$1,197,501 for the extension costs and \$80,175 to reimburse engineering costs. The County shall collect and retain all tax increment revenues collected from the taxable properties located in the area. If upon maturity of the loan, the revenue collected is not sufficient to fully reimburse the County for all the principal and interest paid by the County, on its loan for this specific purpose, the City will be obligated to repay the unpaid balance plus interest at the rate then being paid by the County on its loan. Since the repayment is contingent on future taxes paid in the Urban Renewal Project area, the amounts of the payments are not readily determinable.

5/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$40,572, \$33,038, and \$32,880, respectively, equal to the required contributions for each year.

6/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The liability is computed based on the rate of pay as of June 30, 2010. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2010, primarily relating to the General Fund, was \$46,000.

7/ Landfill Closure and Postclosure Care

The City has entered into an agreement with several other municipalities, as allowed under Code of Iowa Section 28E, to provide for economical and environmentally responsible disposal of solid waste and establish permanent environmental responsibility for the Newton Sanitary Landfill. State and federal laws and regulations require the Newton Sanitary Landfill to place a final cover on the site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. To date, 29% of the landfill has been filled and the estimated total liability for such is \$ 4,744,200, based on 2010 cost estimates. Actual costs may be higher due to inflation, technology changes, and changes in regulations. As specified in the 28E agreement, the City is responsible for 4.86% or approximately \$230,000. The City's proportionate share is updated annually in accordance with the agreement.

8/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

	Transfer To				Total
	General	Road Use Tax	Debt Service	IDED Project	
Transfer from					
Tax Increment	\$	\$	\$ 26,699	\$	\$ 26,699
Local Option	138,839	5,923		19,703	164,465
Cemetery	3,198				3,198
Hotel/Motel Tax	32,746				32,746
	<u>\$ 174,783</u>	<u>\$ 5,923</u>	<u>\$ 26,699</u>	<u>\$ 19,703</u>	<u>\$ 227,108</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

9/ Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,499 during the year ended June 30, 2010.

10/ Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

12/ Deficit Fund Balances

At June 30, 2010 the General, Road Use Tax, and Debt Service Funds had deficit balances of \$379,556, \$31,746 and \$21,739, respectively. The deficit in the General Fund will be reduced by transfers from the Proprietary Fund operating accounts to the extent possible. The deficit in the Debt Service Fund will be reduced by increasing property tax levies in subsequent years. The deficit in the Road Use Tax Fund will be reduced by future receipts.

13/ Economic Development Loan

In 2004, with funds from the Iowa Department of Economic Development (IDED), the City loaned \$150,000 to a local manufacturing company which employed 40 people. The loan was forgivable to the extent of \$75,000 and the company fulfilled the requirement for such. Repayments totaling \$21,250 were received through 2007 on the \$75,000 balance. Any repayments were to be used by the City for similar projects. In 2009, a new company acquired the assets and received a \$25,000 loan and a \$25,000 forgivable loan from

DED. In addition, the City loaned \$20,000 which is to be repaid , beginning March 1, 2011, with annual payments of \$2,000.

The City has requested payment of the \$53,750 remaining balance, plus interest, from the owners of the old company. To date nothing has been received.

City of Colfax, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual
Receipts		
Property Taxes	\$ 633,148	\$
Tax increment financing collections	26,699	
Other city tax	238,398	
Licenses and permits	12,898	
Use of money and property	12,514	5,638
Intergovernmental	237,890	
Charges for Service	130,646	818,325
Special assessments	10,731	
Miscellaneous	64,615	
Total Receipts	<u>1,367,539</u>	<u>823,963</u>
Disbursements		
Public safety	612,848	
Public works	213,773	
Health and social services	5,900	
Culture and recreation	229,619	
Community and economic development	31,126	
General government	175,296	
Debt service	194,521	
Business type activities		780,884
Total Disbursements	<u>1,463,083</u>	<u>780,884</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(95,544)</u>	<u>43,079</u>
Other financing (uses) net	<u>(23,256)</u>	<u>3,553</u>
Excess (deficiency) of receipts over disbursements and other financing uses	<u>(118,800)</u>	<u>46,632</u>
Balance - beginning of year	5,287	1,628,985
Balance (deficit) - end of year	<u>\$ (113,513)</u>	<u>\$ 1,675,617</u>

See accompanying independent auditors' report.

Net	Original	Final	Final to Net Variance
\$ 633,148	\$ 641,901	\$ 641,901	\$ (8,753)
26,699			26,699
238,398	193,725	277,274	(38,876)
12,898	10,625	10,625	2,273
18,152	9,500	26,168	(8,016)
237,890	468,178	468,178	(230,288)
948,971	940,700	940,700	8,271
10,731	5,000	7,864	2,867
64,615			64,615
2,191,502	2,269,629	2,372,710	(181,208)
612,848	678,916	678,916	66,068
213,773	208,638	238,638	24,865
5,900	5,900	5,900	
229,619	162,964	162,964	(66,655)
31,126	38,002	158,002	126,876
175,296	202,242	202,242	26,946
194,521	194,144	194,144	(377)
780,884	949,143	949,143	168,259
2,243,967	2,439,949	2,589,949	345,982
(52,465)	(170,320)	(217,239)	164,774
(19,703)			(19,703)
(72,168)	(170,320)	(217,239)	145,071
1,634,272	1,535,943	1,535,943	98,329
\$ 1,562,104	\$ 1,365,623	\$ 1,318,704	\$ 243,400

City of Colfax, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2010

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, budget amendments increased budgeted disbursements by \$150,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the Culture and Recreation and Debt Service functions.

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2010

	Special Revenue		Permanent	
	Urban Renewal		Cemetery	
	Tax Increment	CDBG	Perpetual Care	Total
Receipts				
Property tax - tax increment financing	\$ 26,699	\$	\$	\$ 26,699
Intergovernmental		4,800		4,800
Use of money and property			3,198	3,198
Miscellaneous			150	150
Total Receipts	26,699	4,800	3,348	34,847
Disbursements				
Community and Economic Development		4,800		4,800
Excess of receipts over disbursements	26,699		3,348	30,047
Other financing uses				
Operating transfers out	(26,699)		(3,198)	(29,897)
Total other financing uses	(26,699)		(3,198)	(29,897)
Net change in cash balances			150	150
Cash balance - beginning of year			66,060	66,060
Cash balance - end of year	\$	\$	\$ 66,210	\$ 66,210
Cash basis fund balances				
Unreserved				
Permanent fund	\$	\$	\$ 66,210	\$ 66,210
Total cash basis fund balances	\$	\$	\$ 66,210	\$ 66,210

See accompanying independent auditors' report.

City of Colfax, Iowa
Schedule of Indebtedness
For the year ended June 30, 2010

			Amount Originally Issued
Obligation	Date of Issue	Interest Rates	
General Obligation Notes			
Fire Station and Park Project	March 2, 1998	5.00%	\$ 400,000
City Hall	April 1, 2002	5.00%	35,000
South Sewer	April 14, 2003	3.50%	400,000
Corporate Purpose	August 15, 2001	5.00%	150,000
Municipal Swimming Pool Repairs and Improvements to City Park, Ball Fields, and Tennis Courts			
Lake Street Sewer	October 1, 2004	4.50%	100,000
Federal Street Improvements	February 15, 2008	4.50%	75,000
Water and Sewer Improvements	October 24, 2006	4.65%	110,000
Corporate Purpose Note			
Sewer Equipment and Streetsweeper	September 15, 2005	4.50%	232,500
Totals			
Revenue Bonds and Note			
Sewer Revenue Bonds	March 15, 2003	3.00%	\$ 1,910,000
Sewer Revenue Note	May 8, 2001	6.25%	250,000
Totals			

The accompanying notes to financial statements are an integral part of this statement.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 101,175	\$	\$ 30,569	\$ 70,606	\$ 5,116
10,500		3,500	7,000	523
120,000		40,000	80,000	4,247
32,129		19,187	12,942	1,393
53,494		11,778	41,716	2,319
45,000		15,000	30,000	2,048
77,000		11,000	66,000	3,626
116,250		38,750	77,500	5,465
<u>\$ 555,548</u>	<u>\$</u>	<u>\$ 169,784</u>	<u>\$ 385,764</u>	<u>\$ 24,737</u>
\$ 1,417,000	\$	\$ 91,000	\$ 1,326,000	\$ 42,510
90,089		23,124	66,965	5,399
<u>\$ 1,507,089</u>	<u>\$</u>	<u>\$ 114,124</u>	<u>\$ 1,392,965</u>	<u>\$ 47,909</u>

City of Colfax, Iowa
Bond and Note Maturities
For the year ended June 30, 2010

Year Ending June 30,	Fire Station and Park		City Hall		South Sewer	
	Issued March 2, 1998		Issued April 1, 2002		Issued April 14, 2003	
	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount
2011	5.00	35,230	5.00	3,500	3.50	
2012	5.00	35,376	5.00	3,500	3.50	40,000
2013					3.50	40,000
2014						
2015						
2016						
Totals		<u>\$ 70,606</u>		<u>\$ 7,000</u>		<u>\$ 80,000</u>

	Sewer and Streetsweeper		Federal Street Improvements		
	Issued September 15, 2005		Issued February 15, 2008		
Year Ending	Interest		Interest		Total
June 30,	Rates (%)	Amount	Rates (%)	Amount	General
					Obligations
2011	4.65	38,750	4.50	15,000	126,992
2012	4.65	38,750	4.50	15,000	154,672
2013					62,554
2014					19,546
2015					11,000
2016					11,000
Totals		\$ 77,500		\$ 30,000	\$ 385,764

See accompanying independent auditors' report.

Pool and Park		Lake Street Sewer		Water and Sewer Improvements	
Issued August 15, 2001		Issued October 1, 2004		Issued October 24, 2006	
Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount
5.00	12,942	4.50	10,570	4.65	11,000
		4.50	11,046	4.65	11,000
		4.50	11,554	4.65	11,000
		4.50	8,546	4.65	11,000
				4.65	11,000
				4.65	11,000
					<u>\$ 66,000</u>
	<u>\$ 12,942</u>		<u>\$ 41,716</u>		

Sewer Revenue Notes			Sewer Revenue Bonds		
Issued May 8, 2000			Issued March 15, 2003		
Year Ending June 30,	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Total Sewer Notes & Bonds
2011	6.25	19,498	3.00	93,000	112,498
2012	6.25	20,736	3.00	96,000	116,736
2013	6.25	22,052	3.00	99,000	121,052
2014	6.25	4,679	3.00	102,000	106,679
2015			3.00	105,000	105,000
2016			3.00	108,000	108,000
2017			3.00	112,000	112,000
2018			3.00	115,000	115,000
2019			3.00	118,000	118,000
2020			3.00	122,000	122,000
2021			3.00	126,000	126,000
2022			3.00	130,000	130,000
Totals		<u>\$ 66,965</u>		<u>\$ 1,326,000</u>	<u>\$ 1,392,965</u>

City of Colfax, Iowa
Schedule of Receipts by Source and Disbursements by Function
All Government Funds
For the Last Six Years

	2010	2009	2008	2007	2006	2005
Receipts						
Property taxes	\$ 633,148	\$ 661,194	\$ 627,494	\$ 583,887	\$ 529,100	\$ 557,068
Tax increment financing collections	26,699	23,036	17,140	17,426	16,114	17,510
Other city tax	238,398	236,577	229,257	213,583	338,289	181,448
Licenses and permits	12,898	9,198	12,363	22,075	19,277	15,622
Use of money and property	12,514	19,999	22,702	22,415	14,512	5,579
Intergovernmental	237,890	256,998	418,635	256,279	207,885	196,590
Charges for service	130,646	119,656	144,787	108,484	140,273	197,131
Special assessments	10,731	46,797				
Miscellaneous	64,615	81,213	24,970	73,784	93,437	119,495
Total	<u>\$ 1,367,539</u>	<u>\$ 1,454,668</u>	<u>\$ 1,497,348</u>	<u>\$ 1,297,933</u>	<u>\$ 1,358,887</u>	<u>\$ 1,290,443</u>
Disbursements						
Operating						
Public safety	\$ 612,848	\$ 486,489	\$ 408,237	\$ 384,234	\$ 376,397	\$ 512,601
Public works	213,773	335,071	503,078	246,762	326,697	284,064
Health and social services	5,900					6,182
Culture and recreation	229,619	256,398	186,962	174,050	180,711	167,381
Community and economic development	31,126	43,916	83,565	3,001	3,000	3,001
General government	175,296	180,088	177,694	200,153	272,783	284,583
Debt service	194,521	201,880	242,514	188,570	172,458	122,653
Total	<u>\$ 1,463,083</u>	<u>\$ 1,503,842</u>	<u>\$ 1,602,050</u>	<u>\$ 1,196,770</u>	<u>\$ 1,332,046</u>	<u>\$ 1,380,465</u>

See accompanying independent auditors' report.

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES R. ZIRCHER, CPA
NEAL R. SMITH, CPA
DEBRA J. NABITY, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax, Iowa as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon as dated below. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Colfax's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting that we considered to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected on a timely basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Colfax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Colfax's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Colfax and other parties to whom the City of Colfax may report. This report is not intended to be and should not be used by anyone other than these specified parties.

December 17, 2010

Pollard and Company P.C.

CITY OF COLFAX, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

I-A-10 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, signing, mailing journalizing and posting.
- (3) Payroll preparation and distribution.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

In February 2010, we involved the mayor, council, deputy city clerk, and department heads to produce more segregation of duties of the above functions. We will continue to review the internal control procedures and continue to segregate duties to the extent possible.

Conclusion

Response accepted.

Part II: Other Findings Related to Statutory Reporting

II-A-10 Certified Budget

Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the Culture and Recreation and Debt Service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response

The budget will be amended in the future, as applicable.

Conclusion

Response accepted.

Part II: Other Findings Related to Statutory Reporting (continued)

II-B-10 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-10 Travel Expense

We noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.

II-D-10 Business Transactions

Business transactions between the City and City officials or employees are as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bryan Poulter, Council Member,	Swimming Pool Manager Wages	\$2,499

In accordance with Chapter 362.5(10) of the Code of Iowa, this transaction does not appear to be a conflict of interest, since the duties of the function are not incompatible with duties as a Council Member.

II-E-10 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-10 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

Although the minutes were published as required, they did not always contain a summary of receipts in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation

The City should comply with the Code of Iowa and publish a summary of the receipts

Response

We will publish the summary of receipts as required.

Conclusion - Response accepted

II-G-10 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-10

Revenue Bonds and Notes

As noted in Note 3, the City was not in compliance with two revenue bond and note resolutions.

Recommendation

The City should periodically determine if rates are sufficient to provide net operating revenues which exceed 110% of the debt service required on the revenue bonds and notes. Also, the City should set aside, monthly in a sewer sinking fund, 1/6th of the next interest payment and 1/12th of the next principal payment for the sewer bonds.

Response

The monthly amounts will be set aside and the rates will be reviewed.

Conclusion

Response accepted.

II-I-10

Notice of Public Hearing on Backhoe Lease

The City did not publish a notice of public hearing for the backhoe lease as required by Chapters 364.4 and 384.25 of the Code of Iowa.

Recommendation

Before entering into a lease contract, the Council should hold a public hearing in accordance with Chapter 362.3 of the Code of Iowa. The City should consult with the city attorney on this matter.

Response

In the future, we will publish the appropriate notice as required. We will consult with the city attorney on the above matter.

Conclusion

Response accepted.

II-J-10

Financial Condition

The General, Road Use Tax, and Debt Service Funds had deficit balances at June 30, 2010 of \$379,556, \$31,746 and \$21,739, respectively.

Recommendation

The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response

Note 12 of the financial statements describes the City's plans to eliminate the deficits.

Conclusion

Response accepted.